

**STRATFORD
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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STRATFORD COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2003 Election)

Rick Woodard	President	2005
Mark Anderson		2003
Aimee Brown Anderson		2005
Karen Harrill		2004
Cheryl Lindmark		2004

(After September, 2003 Election)

Rick Woodard	President	2005
Mark Anderson		2006
Aimee Brown Anderson		2005
Karen Harrill		2004
Cheryl Lindmark		2004

SCHOOL OFFICIALS

Sarah Binder	Superintendent
Linda Swedlund	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Stratford Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Stratford Community School District, Stratford, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Stratford Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 7 to the financial statements, during the year ended June 30, 2004, Stratford Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated July 28, 2004 on our consideration of Stratford Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 thru 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stratford Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

July 28, 2004

STRATFORD COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Stratford Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$1,528,116 in fiscal 2003 to \$1,508,848 in fiscal 2004, while General Fund expenditures decreased from \$1,460,699 in fiscal year 2003 to \$1,408,336 in fiscal 2004.
- The decrease in General Fund revenues was attributable to a midyear cut in state appropriations. The decrease in expenditures was due primarily to a decrease in administrative costs. The General Fund balance increased primarily due to the reduction in expenditures.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in a decrease in interest earnings in the General Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Stratford Community School District

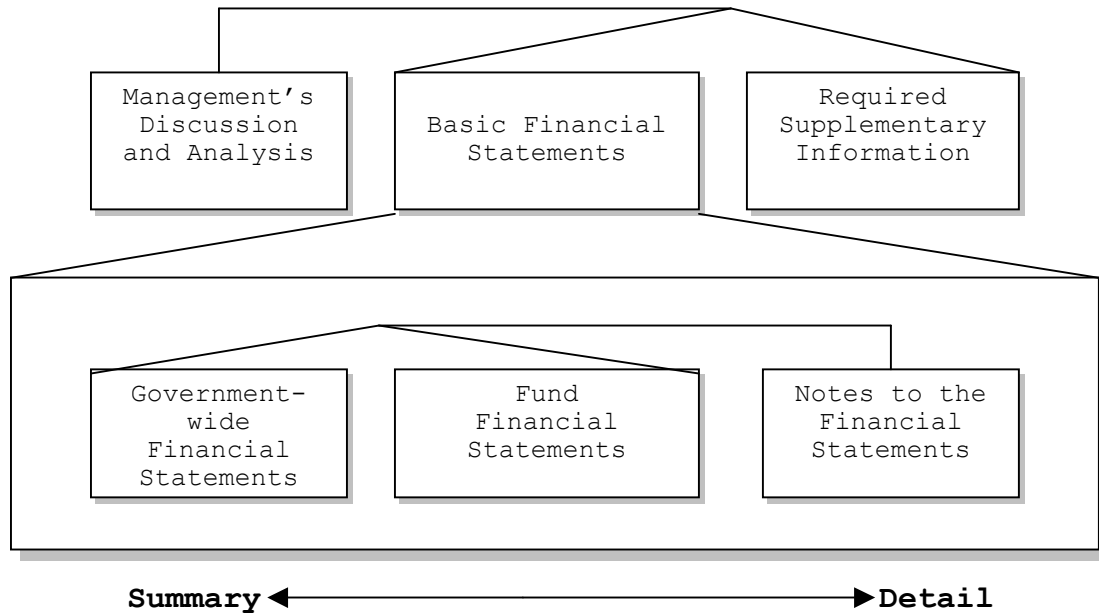


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-04
	\$	\$	\$	\$	\$	\$	%
Current assets	1,612	1,530	70	44	1,682	1,574	6.42%
Capital assets	<u>1,353</u>	<u>1,375</u>	<u>4</u>	<u>5</u>	<u>1,357</u>	<u>1,380</u>	-1.69%
Total assets	<u><u>2,965</u></u>	<u><u>2,905</u></u>	<u><u>74</u></u>	<u><u>49</u></u>	<u><u>3,039</u></u>	<u><u>2,954</u></u>	<u><u>2.80%</u></u>
Current liabilities	755	806	-	-	755	806	-6.75%
Non-current liabilities	<u>1,175</u>	<u>1,240</u>	<u>-</u>	<u>-</u>	<u>1,175</u>	<u>1,240</u>	-5.53%
Total liabilities	<u><u>1,930</u></u>	<u><u>2,046</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,930</u></u>	<u><u>2,046</u></u>	<u><u>-6.01%</u></u>
Net Assets							
Invested in capital assets, net of related debt	178	135	4	5	182	140	23.08%
Restricted	294	257	-	-	294	257	12.59%
Unrestricted	<u>563</u>	<u>467</u>	<u>70</u>	<u>44</u>	<u>633</u>	<u>511</u>	-273.77%
Total net assets	<u><u>1,035</u></u>	<u><u>859</u></u>	<u><u>74</u></u>	<u><u>49</u></u>	<u><u>1,109</u></u>	<u><u>908</u></u>	<u><u>18.12%</u></u>

The District's combined net assets were smaller at June 30, 2004 than June 30, 2003. The decrease occurred as a combined result of decreased tax revenue from the state of Iowa and depreciation on capital assets.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4 Change in Net Assets (expressed in thousands)			
	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	61	35	96
Operating grants, contributions and restricted interest	187	64	251
General revenues:			
Property tax	754	-	754
Income surtax	56	-	56
Local option sales tax	16	-	16
Unrestricted state grants	685	-	685
Unrestricted investment earnings	7	-	7
Other	4	-	4
Total revenues	<u>1,770</u>	<u>99</u>	<u>1,869</u>
Program expenses:			
Governmental activities:			
Instruction	1,004	-	1,004
Support Services	404	-	404
Non-instructional programs	2	74	76
Other expenses	179	-	179
Total expenses	<u>1,589</u>	<u>74</u>	<u>1,663</u>
Change in net assets	<u>181</u>	<u>25</u>	<u>206</u>

Property tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$1,770,429 and expenses were \$1,633,570.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	1,004	826
Support Services	404	396
Non-instructional programs	2	2
Other expenses	<u>180</u>	<u>118</u>
Totals	<u>1,590</u>	<u>1,342</u>

- The cost financed by users of the District's programs was \$60,668.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$173,133.
- The net cost of governmental activities was financed with \$754,641 in property tax, \$684,503 in state foundation aid, and \$6,720 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$98,623 and expenses were \$73,778. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Stratford Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 1,034,542, a twenty one percent increase over last year's ending fund balances of \$853,939. Depreciation expenses totaled over \$40,000. Reductions in spending were the primary reason for the increase in fund balance.

Governmental Fund Highlights

- The District maintained its General Fund balance by cutting expenses from portions of the budget, primarily administration and other non-instructional costs.
- The maintaining of funds was made even more difficult with the state completely eliminating the Phase III money and the technology money.
- The District continues to collect the school Infrastructure Local Option Sales Tax. No definite plans have been made for this money, however, it will continue to increase as Boone County will now also be collecting the tax.

Proprietary Fund Highlights

The School Nutrition Fund balance decreased due primarily reduced participation. The Day Care Fund grew substantially due to contributions and grant activity.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

Legal Budgetary Highlights

The District's receipts were almost \$50,000 less than budgeted receipts, a variance of more than 3%. The most significant variance resulted from the District receiving less in state aid and grant activity than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$1.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 5% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$40,200.

The original cost of the District's capital assets was \$2,038,855. Governmental funds account for \$2,033,820, with the remainder of \$8,535 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	
Land	5	5	-	-	5	5	0.00%
Buildings	1,332	1,370	-	-	1,332	1,370	-2.77%
Furniture and equipment	16	-	4	5	20	5	300.00%
Totals	<u>1,353</u>	<u>1,375</u>	<u>4</u>	<u>5</u>	<u>1,357</u>	<u>1,380</u>	<u>-1.67%</u>

Long-Term Debt

At June 30, 2004, the District had \$1,175,000 in general obligation, long-term debt outstanding. This represents a decrease of approximately 5% from last year (See Figure A-7). Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations
(expressed in thousands)

	Total		Total
	District		Change
	June 30,		June 30,
	2004	2003	2003-2004
	\$	\$	
General obligation bonds	1,175	1,240	-5.24%
Total	1,175	1,240	-5.24%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The SILO tax was passed in Boone County and money will begin to be received by the District in July of 2004. This will supplement the current receipts.
- The District has experienced declining enrollment the past several years.
- For the 2003-04 school year the state cut the District's budget by 2.5%. This was an across the board cut, effecting Phase I & II and Teacher Compensation as well as other areas. This will force the District to make cuts, or use some of the cash on hand. Future state aid cuts have also been discussed. Cuts made during the fiscal year negatively impact the District's balances as adequate expense reductions are not possible.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sarah Binder, Superintendent, Stratford Community School District, 1000 Shakespeare Ave, Stratford, IA 50249.

Basic Financial Statements

STRATFORD COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	852,844	69,449	922,293
Receivables:			
Property tax			
Current year	8,075	-	8,075
Succeeding year	693,767	-	693,767
Income surtax	54,381		
Due from other governments	2,273	-	2,273
Other receivables	370	-	370
Inventories	-	811	811
Capital assets, net of accumulated depreciation (note 3)	1,352,959	3,982	1,356,941
Total assets	2,964,669	74,242	2,984,530
Liabilities			
Accrued payroll and benefits	2,181	-	2,181
Accrued interest payable	4,798	-	4,798
Deferred revenue:			
Succeeding year property tax	693,767	-	693,767
Succeeding year income surtax	54,381	-	54,381
Long term liabilities:			
Portion due within one year:			
General obligation bonds	65,000	-	65,000
Portion due after one year:			
General obligation bonds	1,110,000	-	1,110,000
Total liabilities	1,930,127	-	1,930,127
Net Assets			
Invested in capital assets, net of related debt	177,959	3,982	181,941
Restricted for:			
Management fund	69,025		69,025
Physical plant and equipment levy	187,495	-	187,495
Capital projects	36,758	-	36,758
Unrestricted	563,305	70,260	633,565
Total net assets	1,034,542	74,242	1,108,784

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					
		Charges for	Operating Grants, Contributions and Restricted	Governmental	Business-Type	Total
	Expenses	Service	Interest	Activities	Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:						
Regular instruction	716,052	53,936	59,898	(602,218)	-	(602,218)
Special instruction	278,380	1,665	52,134	(224,581)	-	(224,581)
Other instruction	9,653	-	10,443	790	-	790
	<u>1,004,085</u>	<u>55,601</u>	<u>122,475</u>	<u>(826,009)</u>	<u>-</u>	<u>(826,009)</u>
Support services:						
Student services	8,171	-	746	(7,425)	-	(7,425)
Instructional staff services	10,871	-	-	(10,871)	-	(10,871)
Administration services	185,224	-	-	(185,224)	-	(185,224)
Operation and maintenance of plant services	126,804	-	2,662	(124,142)	-	(124,142)
Transportation services	72,976	5,067	-	(67,909)	-	(67,909)
	<u>404,046</u>	<u>5,067</u>	<u>3,408</u>	<u>(395,571)</u>	<u>-</u>	<u>(395,571)</u>
Non-instructional programs	<u>2,205</u>	<u>-</u>	<u>-</u>	<u>(2,205)</u>	<u>-</u>	<u>(2,205)</u>
Other expenditures:						
Facilities acquisition	19,481	-	166	(19,315)	-	(19,315)
Interest on long-term debt	61,155	-	50	(61,105)	-	(61,105)
AEA flowthrough	61,314	-	61,314	-	-	-
Depreciation (unallocated)*	37,540	-	-	(37,540)	-	(37,540)
	<u>179,490</u>	<u>-</u>	<u>61,530</u>	<u>(117,960)</u>	<u>-</u>	<u>(117,960)</u>
Total governmental activities	1,589,826	60,668	187,413	(1,341,745)	-	(1,341,745)

STRATFORD COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Expenses	Charges for Service	Interest	Activities	Activities	Total
\$	\$	\$	\$	\$	\$
Business-Type activities:					
Non-instructional programs	73,778	35,179	63,444	-	24,845
					24,845
Total	1,663,604	95,847	250,857	(1,341,745)	24,845
					(1,316,900)
General revenues:					
Property tax levied for:					
General purposes			522,373	-	522,373
Management Fund			44,843	-	44,843
Capital outlay			61,161	-	61,161
Debt service			126,264	-	126,264
Income surtax			56,267	-	56,267
School Infrastructure Local Option Sales Tax			15,992	-	15,992
Unrestricted state grants			684,503	-	684,503
Unrestricted investment earnings			6,720	-	6,720
Other			4,225	-	4,225
Total general revenue			1,522,348	-	1,522,348
Change in net assets			180,603	24,845	205,448
Net assets beginning of year			853,939	49,397	903,336
Net assets end of year			1,034,542	74,242	1,108,784

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	558,992	-	32,504	261,348	852,844
Receivables:					
Property tax:					
Current year	5,621	1,326	-	1,128	8,075
Succeeding year	492,569	122,580	-	78,618	693,767
Income surtax	54,381	-	-	-	54,381
Due from other governments	-	-	2,273	-	2,273
Interfund receivables	-	-	1,981	-	1,981
Other receivables	370	-	-	-	370
Total assets	<u>1,111,933</u>	<u>123,906</u>	<u>36,758</u>	<u>341,094</u>	<u>1,613,691</u>
Liabilities and Fund Balances					
Liabilities:					
Accrued payroll and benefits	2,181	-	-	-	2,181
Interfund payables	-	1,981	-	-	1,981
Deferred revenue:					
Succeeding year property tax	492,569	122,580	-	78,618	693,767
Succeeding year income surtax	54,381	-	-	-	54,381
Total liabilities	<u>549,131</u>	<u>124,561</u>	<u>-</u>	<u>78,618</u>	<u>752,310</u>
Fund balances:					
Reserved for:					
Capital projects	-	-	36,758	-	36,758
Unreserved	562,802	(655)	-	262,476	824,623
Total fund balances	<u>562,802</u>	<u>(655)</u>	<u>36,758</u>	<u>262,476</u>	<u>861,381</u>
Total liabilities and fund balance	<u>1,111,933</u>	<u>123,906</u>	<u>36,758</u>	<u>341,094</u>	<u>1,613,691</u>

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	\$ 861,381
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,352,959
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(4,798)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
General obligation bonds	<u>(1,175,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,034,542</u></u>

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	578,640	126,264	15,992	106,004	826,900
Tuition	50,833	-	-	-	50,833
Other	21,739	50	166	13,105	35,060
State sources	804,756	-	-	-	804,756
Federal sources	52,880	-	-	-	52,880
Total revenues	<u>1,508,848</u>	<u>126,314</u>	<u>16,158</u>	<u>119,109</u>	<u>1,770,429</u>
Expenditures:					
Instruction:					
Regular instruction	716,052	-	-	-	716,052
Special instruction	278,380	-	-	-	278,380
Other instruction	-	-	-	9,653	9,653
	<u>994,432</u>	<u>-</u>	<u>-</u>	<u>9,653</u>	<u>1,004,085</u>
Support services:					
Student services	8,171	-	-	-	8,171
Instructional staff services	10,871	-	-	-	10,871
Administration services	146,404	-	-	38,820	185,224
Operation and maintenance of plant services	96,004	-	-	30,800	126,804
Transportation services	88,935	-	-	-	88,935
	<u>350,385</u>	<u>-</u>	<u>-</u>	<u>69,620</u>	<u>420,005</u>
Non-instructional programs:					
Food service operations	<u>2,205</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,205</u>
Other expenditures:					
Facilities acquisition and construction services	-	-	-	19,481	19,481
Principal on long-term debt	-	65,000	-	-	65,000
Interest on long-term debt	-	61,480	-	-	61,480
AEA flowthrough	61,314	-	-	-	61,314
	<u>61,314</u>	<u>126,480</u>	<u>-</u>	<u>19,481</u>	<u>207,275</u>
Total expenditures	<u>1,408,336</u>	<u>126,480</u>	<u>-</u>	<u>98,754</u>	<u>1,633,570</u>
Excess (Deficiency) of revenues over (under) expenditures	100,512	(166)	16,158	20,355	136,859
Fund balances beginning of year	<u>462,290</u>	<u>(489)</u>	<u>20,600</u>	<u>242,121</u>	<u>724,522</u>
Fund balances end of year	<u>562,802</u>	<u>(655)</u>	<u>36,758</u>	<u>262,476</u>	<u>861,381</u>

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E) \$ 136,859

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 18,619	
Depreciation expense	<u>(40,200)</u>	(21,581)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	65,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is reported as an expenditure in the funds when due. In the Statement of Activities, interest expense is recorded as the interest accrues, regardless of when it is due.	<u>325</u>
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Change in net assets of governmental activities (Exhibit B) \$ 180,603

STRATFORD COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets

Proprietary Funds

June 30, 2004

	School Nutrition	Day Care	Total
	\$	\$	
Assets			
Cash and pooled investments	5,802	63,647	69,449
Inventories	811	-	811
Capital assets, net of accumulated depreciation	3,982	-	3,982
Total assets	<u>10,595</u>	<u>63,647</u>	<u>74,242</u>
Net assets			
Invested in capital assets, net of related debt	3,982	-	3,982
Unrestricted	6,613	63,647	70,260
Total net assets	<u>10,595</u>	<u>63,647</u>	<u>74,242</u>

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year ended June 30, 2004

	School Nutrition	Day Care	Total
	\$		
Operating revenue:			
Local sources:			
Charges for services	<u>27,419</u>	<u>7,760</u>	<u>35,179</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	16,519	-	16,519
Benefits	8,562	-	8,562
Supplies	23,240	-	23,240
Depreciation	<u>569</u>	<u>-</u>	<u>569</u>
	<u>48,890</u>	<u>-</u>	<u>48,890</u>
Other enterprise operations:			
Salaries	-	20,009	20,009
Benefits	-	2,577	2,577
Supplies	<u>-</u>	<u>2,302</u>	<u>2,302</u>
	<u>-</u>	<u>24,888</u>	<u>24,888</u>
Total operating expenses	<u>48,890</u>	<u>24,888</u>	<u>73,778</u>
Operating (loss)	<u>(21,471)</u>	<u>(17,128)</u>	<u>(38,599)</u>
Non-operating revenues:			
Local sources	-	45,642	45,642
State sources	620	-	620
Federal sources	<u>17,182</u>	<u>-</u>	<u>17,182</u>
	<u>17,802</u>	<u>45,642</u>	<u>63,444</u>
Change in net assets	(3,669)	28,514	24,845
Net assets beginning of year	<u>14,264</u>	<u>35,133</u>	<u>49,397</u>
Net assets end of year	<u>10,595</u>	<u>63,647</u>	<u>74,242</u>

See notes to financial statements.

STRATFORD COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2004

	School Nutrition	Community Education	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	27,419	7,760	35,179
Cash payments to employees for services	(25,081)	(22,586)	(47,667)
Cash payments to suppliers for goods or services	(19,552)	(2,302)	(21,854)
Net cash provided by (used in) operating activities	(17,214)	(17,128)	(34,342)
Cash flows from non-capital financing activities:			
Contributions	-	45,642	45,642
State grants received	620	-	620
Federal grants received	14,036	-	14,036
Net cash provided by non-capital financing activities	14,656	45,642	60,298
Net increase (decrease) in cash and cash equivalents	(2,558)	28,514	25,956
Cash and cash equivalents beginning of year	8,360	35,133	43,493
Cash and cash equivalents end of year	5,802	63,647	69,449
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(21,471)	(17,128)	(38,599)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	569	-	569
Commodities used	3,146	-	3,146
Decrease in inventory	542	-	542
	(17,214)	(17,128)	(34,342)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	5,802	63,647	69,449

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$3,146.

STRATFORD COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The Stratford Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Stratford, Iowa, and agricultural area in Boone, Hamilton, and Webster Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Stratford Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Stratford Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Hamilton County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for funds raised by the one cent School Infrastructure Local Option Sales Tax. These funds are being used for debt retirement and infrastructure expenses.

The District reports the following major proprietary fund:

The District's proprietary funds are the Day Care and School Nutrition Fund. These funds are used to account for the food service operations of the District as well as a daycare facility.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2004.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 7)	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Capital assets being depreciated:				
Buildings	1,877,000	-	-	1,877,000
Furniture and Equipment	<u>133,201</u>	<u>18,619</u>	<u>-</u>	<u>151,820</u>
Total capital assets being depreciated	<u>2,010,201</u>	<u>18,619</u>	<u>-</u>	<u>2,028,820</u>
Less accumulated depreciation for:				
Buildings	507,460	37,540	-	545,000
Furniture and Equipment	<u>133,201</u>	<u>2,660</u>	<u>-</u>	<u>135,861</u>
Total accumulated depreciation	<u>640,661</u>	<u>40,200</u>	<u>-</u>	<u>680,861</u>
Total capital assets being depreciated, net	<u>1,369,540</u>	<u>(21,581)</u>	<u>-</u>	<u>1,347,959</u>
Governmental activities, capital assets, net	<u>1,374,540</u>	<u>(21,581)</u>	<u>-</u>	<u>1,352,959</u>
Business type activities:				
Furniture and equipment	9,535	-	-	9,535
Less accumulated depreciation	<u>4,984</u>	<u>569</u>	<u>-</u>	<u>5,553</u>
Business type activities capital assets, net	<u>4,551</u>	<u>(569)</u>	<u>-</u>	<u>3,982</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Support services:				
Transportation				2,660
Unallocated				<u>37,540</u>
				<u>40,200</u>
Business Type activities:				
Food service operations				<u>569</u>

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$38,266, \$37,236, and \$36,875 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$61,314 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Risk Management

Stratford Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA funds current operations and provided capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$99,003.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Stratford Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus were implemented during the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Governmental Accounting Standards Board (GASB) Statement Number 38, Certain Financial Statement Note Disclosure, requires certain disclosures be made in the notes to the financial statements concurrent with the implementation of Statement Number 34.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

	Fund				Total
	General	Debt Service	Capital Projects	Nonmajor Special Revenues	
Net assets, June 30, 2003, as previously reported	\$462,290	(489)	20,600	242,121	724,522
GASB Interpretation 6 adjustments	-	-	-	-	-
Net assets, July 1, 2003, as restated for governmental funds	<u>\$462,290</u>	<u>(489)</u>	<u>20,600</u>	<u>242,121</u>	724,522
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$640,661					1,374,540
Accrued interest on long-term debt					(5,123)
Long-Term Liabilities:					
General obligation bonds					<u>(1,240,000)</u>
Net assets, July 1, 2003, as restated					<u>\$ 853,939</u>

(8) Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2005	6.00%	\$ 57,580	65,000	122,580
2006	6.00	53,680	70,000	123,680
2007	4.50	49,480	75,000	124,480
2008	4.50	46,105	75,000	121,105
2009	4.60	42,730	80,000	122,730
2010	4.70	39,050	85,000	124,050
2011	4.70	35,055	90,000	125,055
2012	4.80	30,825	90,000	120,825
2013	4.80	26,505	95,000	121,505
2014	4.80	21,945	105,000	126,945
2015	4.90	16,905	110,000	126,905
2016	4.90	11,515	115,000	126,515
2017	4.90	5,880	120,000	125,880
Total		<u>\$437,255</u>	<u>1,175,000</u>	<u>1,612,225</u>

(9) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	<u>General Obligation Bonds</u>
Balance beginning of year	\$1,240,000
Additions	-
Reductions	<u>65,000</u>
Balance end of year	<u>\$1,175,000</u>

(10) Financial Condition

The District's Debt Service Fund had a deficit fund balance of \$655 at June 30, 2004.

Required Supplementary Information

STRATFORD COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Types	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	910,794	80,821	991,615	1,033,586	1,033,586	(41,971)
State sources	804,756	620	805,376	784,772	784,772	20,604
Federal sources	52,880	14,036	66,916	95,000	95,001	(28,085)
Total receipts	<u>1,768,430</u>	<u>95,477</u>	<u>1,863,907</u>	<u>1,913,358</u>	<u>1,913,359</u>	<u>(49,452)</u>
Disbursements:						
Instruction	1,009,352	-	1,009,352	1,718,787	1,718,787	709,435
Support services	420,005	-	420,005	554,183	554,183	134,178
Non-instructional programs	2,205	69,521	71,726	90,600	90,600	18,874
Other expenditures	202,275	-	202,275	203,349	203,349	1,074
Total disbursements	<u>1,633,837</u>	<u>69,521</u>	<u>1,703,358</u>	<u>2,566,919</u>	<u>2,566,919</u>	<u>863,561</u>
Excess (deficiency) of receipts over (under) disbursements	134,593	25,956	160,549	(653,561)	(653,560)	814,109
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>20,001</u>	<u>(20,001)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	134,593	25,956	160,549	(633,561)	(633,559)	794,108
Balance beginning of year	<u>718,251</u>	<u>43,493</u>	<u>761,744</u>	<u>671,191</u>	<u>671,192</u>	<u>90,552</u>
Balance end of year	<u>852,844</u>	<u>69,449</u>	<u>922,293</u>	<u>37,630</u>	<u>37,633</u>	<u>884,660</u>

See accompanying independent auditor's report.

STRATFORD COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	1,768,430	1,999	1,770,429
Expenditures	1,633,837	(267)	1,633,570
Net	134,593	2,266	136,859
Other financing sources (uses)	-	-	-
Beginning fund balances	718,251	6,271	724,522
Ending fund balances	852,844	8,537	861,381

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	95,477	3,146	98,623
Expenditures	69,521	4,257	73,778
Net	25,956	(1,111)	24,845
Beginning fund balances	43,493	5,904	49,397
Ending fund balances	69,449	4,793	74,242

See accompanying independent auditor's report.

Stratford COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functions expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

The District did not exceed the amounts budgeted in any of the four functions.

Other Supplementary Information

STRATFORD COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2004

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	68,542	5,956	186,850	261,348
Property tax receivable:				
Current year	483	-	645	1,128
Succeeding year	<u>30,000</u>	<u>-</u>	<u>48,618</u>	<u>78,618</u>
Total assets	<u>99,025</u>	<u>5,956</u>	<u>236,113</u>	<u>341,094</u>
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	<u>30,000</u>	<u>-</u>	<u>48,618</u>	<u>78,618</u>
	<u>30,000</u>	<u>-</u>	<u>48,618</u>	<u>78,618</u>
Fund equity:				
Unreserved, undesignated fund balance	<u>69,025</u>	<u>5,956</u>	<u>187,495</u>	<u>262,476</u>
	<u>69,025</u>	<u>5,956</u>	<u>187,495</u>	<u>262,476</u>
Total liabilities and fund equity	<u>99,025</u>	<u>5,956</u>	<u>236,113</u>	<u>341,094</u>

See accompanying independent auditor's report.

STRATFORD COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	44,843	-	61,161	106,004
Other	491	10,443	2,171	13,105
Total revenues	45,334	10,443	63,332	119,109
Expenditures:				
Instruction:				
Co-curricular instruction	-	9,653	-	9,653
Support services:				
Administration services	-	-	38,820	38,820
Plant operation and maintenance	30,800	-	-	30,800
Other expenditures:				
Facilities acquisition and construction	-	-	19,481	19,481
Total expenditures	30,800	9,653	58,301	98,754
Excess of revenues over expenditures	14,534	790	5,031	20,355
Fund balances beginning of year, as restated	54,491	5,166	182,464	242,121
Fund balances end of year	69,025	5,956	187,495	262,476

See accompanying independent auditor's report.

STRATFORD COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Book Club	380	143	143	380
Annuals	1,615	79	14	1,680
Miscellaneous	1,355	9,333	8,867	1,821
Music	279	368	302	345
PO	97	-	-	97
Library	700	-	(232)	932
Extra activities	740	520	559	701
Totals	<u>5,166</u>	<u>10,443</u>	<u>9,653</u>	<u>5,956</u>

See accompanying independent auditor's report.

STRATFORD COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
General	578,640	594,281	543,566	567,726
Special revenue	106,004	106,413	104,934	84,826
Debt service	126,264	123,348	123,089	121,657
Capital projects	15,992	10,290	11,227	14,337
	<u>826,900</u>	<u>834,332</u>	<u>782,816</u>	<u>788,546</u>
State sources:				
General	804,756	805,998	830,516	798,802
School nutrition	620	662	631	703
	<u>805,376</u>	<u>806,660</u>	<u>831,147</u>	<u>799,505</u>
Federal sources:				
General	52,880	69,886	29,043	27,289
School nutrition	17,182	17,186	15,270	13,081
	<u>70,062</u>	<u>87,072</u>	<u>44,313</u>	<u>40,370</u>
Total	<u>1,702,338</u>	<u>1,728,064</u>	<u>1,658,276</u>	<u>1,628,421</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Stratford Community School District:

We have audited the financial statements of the Stratford Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated July 28, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Stratford Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year matters have all been resolved except for Item 04-II-E.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stratford Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and no to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Stratford Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-I-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Stratford Community School District and other parties to whom Stratford Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Stratford Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

July 28, 2004

STRATFORD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-I-A SEGREGATION OF DUTIES

Comment - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize that with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will investigate alternative procedures which will improve our system of internal controls.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

04-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget - Disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.

04-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

STRATFORD COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

04-II-E Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Rick Woodard Board President	Property Insurance	\$30,550

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will consult our attorney.

Conclusion - Response accepted.

04-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-II-G Board Minutes - We noted no items requiring Board approval which had not been approved by the Board.

04-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

04-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

04-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

04-II-K Financial Condition - The District's Debt Service Fund had a deficit fund balance of \$655 at June 30, 2004.

Recommendation - We recommend that the District investigate alternatives to return this fund to a positive financial position.

Response - We will do as recommended.

Conclusion - Response accepted.

